

**Testimony for the 2007 Farm Bill Forum held in Kona, Hawaii on November 12, 2005 at the Sheraton Keauhou Beach Resort Convention Center**

Under Secretary Dorr  
Deputy Undersecretary Carlson

My name is Alan Kennett. I am the President of Gay & Robinson, Inc. (Kauai), one of the two remaining sugar companies in Hawaii. I am here to urge that a no-cost U.S. sugar policy be retained in the next farm bill.

Along with my testimony, I am submitting the position of the American Sugar Alliance (ASA) as it relates to U.S. sugar policy in the next Farm Bill. G&R does this as a member of that alliance.

You may have already seen ASA's position paper, if not; I am pleased that G&R is the member to present it to you. I will not read from that submission, but will share with you some thoughts not covered in it.

The State of Hawaii has the most desirable growing conditions in the world for sugar cane. It is why we produce the most tons of sugar per acre in the world, that being 7 tons/acre/year. For many years Hawaii was one of the largest sugar producers, producing over 1.1 million tons of sugar per year. When I arrived in the islands in 1976 there were 18 sugar factories operating, today there are only two, producing approximately 265,000 tons.

The major reason for the decline is producers receiving the same amount for their sugar they were receiving 20 years ago. As sugar companies began to shut down, it became increasingly more difficult for the remaining companies to stay alive. Cost sharing of storage and hauling were a major benefit when there were more companies, becoming a greater problem as the industry declined.

To further illustrate the problem, the vessel used to haul Hawaiian sugar to California, the "Moku Pahu" was bought 20 years ago and the capital for the vessel was amortized by many producers. The vessel hauled 1 million tons, today it hauls 265,000 tons. As you can appreciate, the unit cost per ton has increased as the volume has declined. The two remaining sugar companies are fearful of what will happen when the vessel reaches the end of its useful life.

There are a lot of other negatives that have occurred as producers declined. The former Hawaii Sugar Planters Association was one of the largest and most respected sugar associations in the world. Today it is known as the Hawaii Agriculture and Research Center and is much smaller than it was in its heyday. Because of the reduced level of support through having only two members, many of the departments had to be eliminated, such as the Sugar Technology Department (Factory Services). It is still a respected association but with limited resources.

There are many other issues, too numerous to mention and some might say, why continue? In the case of Gay & Robinson, Inc., it's because of the desire of our owners to continue to keep the west side of Kauai in agriculture and provide jobs and homes for our employees. G&R is a unique place that is very like the plantations of old. We have 438 homes of which nearly half are occupied by pensioners, many not paying any rent at all. On an island where the average price of a home is over \$700,000 you can appreciate the importance of our keeping G&R viable since it is the sugar operation that supports the housing.

All credit must be given to our owners, who have invested in the business while others were shutting down. They are supportive of our plans to build an ethanol plant, electric generating plant and a garbage to energy facility. Given the energy crisis we are in, G&R sees this as an opportunity for Hawaii.

Hawaii as a sugar producer can compete with the other cane producing states purely on cost to get the sugar in the bag. Our problem is the high cost of transportation to get our sugar to market. We have only one mode of transportation, shipping, unlike other states who as well as shipping have trucking, rail and barge. Also, because there is only one cane refiner on the west coast, that refiner imposes a 1.25 cent transportation penalty on Hawaii. So you can see we are penalized by our location.

Congress recognized this during the last Farm Bill debate and a resolution was passed requiring USDA to study the disadvantages to Alaska, Hawaii and the U.S. Territories as it relates to shipping and make recommendations to Congress to address this issue. I hope this has been done and we will see something positive in the next Farm Bill.

In order for U.S. agriculture to remain competitive Farm Bill policy should:

1. Assist with research on improving technologies and productivity improvements available to farmers.
2. Help farmers develop better marketing systems to add more value to their production and reap the benefits of vertical integration and getting closer to their customers.
3. Share the cost of environmental protection with those that benefit from it so that farmers don't have to bear the full burden.
4. Reduce the unreasonable regulatory burdens on farmers.
5. Keep the cost of rural infrastructure (roads, housing, water systems, etc.) low so that the cost of production can be kept as low as possible.
6. Work with market forces as much as possible to achieve fair and reasonable economic results.

Thank you for the opportunity to provide input regarding the 2007 Farm Bill.

E. Alan Kennett  
President and Manager

**Submission by the American Sugar Alliance  
USDA Farm Bill Forums  
July 21, 2005**

***“U.S. Sugar Policy in the Next Farm Bill”***

The American Sugar Alliance is the national coalition of growers, processors, and refiners of sugarbeets and sugarcane. These views represent the majority opinion of the U.S. sugar industry.

U.S. sugar policy is working for U.S. consumer and taxpayers, and gives American sugar farmers a chance to survive. We urge that a no-cost U.S. sugar policy be retained in the next Farm Bill.

**Background: Industry Size, Efficiency, Restructuring**

The U.S. sugar producing industry accounts for 146,000 jobs in 19 states and generates \$10 billion in annual economic activity. Sugar is vital to the economies of many states and localities. In states such as Louisiana and Wyoming, sugar accounts for about 40% of the state's total crop receipts. Sugar accounts for 11-24% of all crop receipts in seven other states. There are small towns in every state that would most likely wither and die if they lost their sugarbeet or sugarcane processing plants.

The United States is the world's fifth largest sugar producer and fourth largest consumer and net importer. U.S. production is about evenly divided between sugarbeets, grown in twelve mostly northern-tier states, and sugarcane, in four southern states (*Figure 1*).

Two decades of declining real prices for our product have forced U.S. producers to reduce costs. We have done so through investment in yield-improving technology, in the field and in the factory – beet sugar yields per acre are up 35% and cane sugar yields 38% since the early 1980's (*Figure 2*) – and through a wrenching industry restructuring over the past several years.

Beet and cane growers throughout this nation are among the most efficient sugar producers in the world. We are particularly proud that we achieve this efficiency while complying with the world's highest labor and environmental standards and despite the strong dollar over the past several years, particularly relative to the developing countries that dominate the world sugar market.

According to LMC International's global 2003 survey, beet growers in the Red River Valley of Minnesota and North Dakota are the most efficient beet growers in the world. U.S. beet sugar producers, as a whole, are third lowest cost of 41 producing countries or regions; U.S. cane sugar producers are 26<sup>th</sup> lowest cost of 64 countries, virtually all them developing countries with low social standards and costs.

In the late 1990's, even nominal sugar prices were extremely low (*Figures 3-6*), and this accelerated the industry restructuring. Just since 1996, nearly a third of all U.S. beet and cane processing mills and cane sugar refineries have closed. Independent beet processors and cane sugar refining companies sought to exit the business. When no potential buyers emerged, beet and cane growers, alarmed they would have no place to deliver their sugarbeets and raw cane sugar, organized cooperatively to purchase beet processing plants and cane refineries.

Just between 1999 and 2004, the grower-owned share of U.S. sugar refining capacity more than doubled, from 36% to 73%. Growers' share of cane sugar refining capacity shot up from 14% to 57%; beet growers' ownership of beet processing capacity climbed from 65% to 94% (*Figure 7*). While this enables the growers/processors to achieve greater efficiencies, the enormous amount of investment involved makes the growers more dependent than ever on maintaining a stable sugar market in the U.S.

### **Background on U.S. Sugar Policy**

In the 2002 Farm Bill, the United States Congress, by resounding majorities in both chambers – 71% of the votes cast in the Senate and 57% in the House – passed a successful sugar policy. The most recent measure of that success was a vote in June – the first Congressional vote on U.S. sugar policy that had occurred since 2001. The House defeated an anti-sugar policy amendment by a vote of 280-146, or 66% of votes cast – the widest margin of any House sugar vote in decades.

U.S. sugar policy is unique among U.S. commodity programs. Under all commodity programs, the government offers farmers operating loans which they can satisfy by repaying the loan with interest or by forfeiting to the government the crop they put up as collateral. While other programs also provide income support to farmers when market prices fall below the loan rate, sugar policy does not, and is designed to run at no cost to the government by avoiding loan forfeitures.

Sugar policy is an inventory management program. The Secretary of Agriculture has two tools to manage the market: a WTO-legal tariff-rate quota (TRQ) to control imports, and a marketing allotment program to control domestic supplies.

The TRQ is a tool of limited use. The government cannot reduce imports below the minimum to which it has committed in trade agreements: 1.256 million short tons in the WTO and up to 276,000 short tons of surplus production from Mexico in the NAFTA.

Essentially by subtracting required imports from anticipated consumption, and allowing for reasonable stock levels, USDA calculates the amount of sugar that could be marketed each year without the risk of depressing prices and inviting loan forfeitures. Farmers can plant as much beets and cane as they want, and process as much sugar as they want, but they may not be able to sell it all onto the market. Sugar processors must store, at their own expense, whatever USDA judges to be in excess, until the market requires the sugar.

When Congress designed sugar policy in the 2002 Farm Bill, it also specified that marketing allotments would be triggered off if imports rise above 1.532 million short tons, the total of U.S. import requirements under the WTO and the NAFTA. Congress essentially was sending a message that this required import amount, about 15% of U.S. sugar consumption, was enough. Imports could grow if U.S. sugar consumption growth outstrips U.S. production growth, or if there is a crop shortfall. But U.S. producers should not have to cede larger minimum shares of their market to foreign producers.

CAFTA or other bilateral or regional free trade agreement (FTA) concessions, on top of the WTO and NAFTA concessions would, therefore, trigger off marketing allotments and render no-cost operation of sugar policy unlikely, if not impossible.

Beet and cane farmers reduced plantings the past several years in the face of declining consumption and prices. The weather has been better for beet growers than for cane, and beet harvests have been relatively good. As a result, beet processors are currently holding back from the market, and storing at their own expense, half a million short tons of beet sugar in an effort to balance the market without taxpayer expense.

But even that amount of producer-paid storage has not been enough. USDA set overall allotment quantities in 2003/04 and 2004/05 that were too large for market needs, prices were depressed through much of 2003 and 2004, and some sugar loan forfeitures, 40,000 short tons, did occur last summer – contrary to the Congress' instruction to the Administration to avoid forfeitures and taxpayer costs.

### **Trade Policy Concerns**

American sugar producers are rueful about the reality that, while we are efficient and would like to become more so by increasing throughput and minimizing unit costs, U.S. trade policy constrains us from doing so. With consumption declining as it was in recent years and a large segment of the U.S. market reserved for imports, American producers are residual suppliers of their own market. To make matters worse, there is enormous political pressure to increase imports and no prospect of reducing them.

In addition to the CAFTA which cedes another 169,000 short tons of our market to those countries over the next 15 years, the Administration is at various stages of negotiating bilateral or regional FTAs with 21 other sugar-exporting countries. These countries produced an annual average of 50 million tons of sugar during 2002-2004. They exported 25 million tons per year – nearly triple U.S. sugar consumption. All these countries already enjoy duty-free shares of the U.S. sugar-import quota.

The Administration argues that the U.S. market could absorb the additional imports from the CAFTA countries. But it will not assure us that the CAFTA concessions are the only new ones we face. Just weeks ago, Administration negotiators met in Montana with their counterparts from Thailand, the world's second largest sugar exporter. The Thais said they want additional access to the U.S. market; U.S. negotiators said sugar in on the table. And this is apparently the case with all the FTAs lined up behind CAFTA and Thailand.

The Congress, and the American sugar industry, do not believe the U.S. sugar market should be carved up for subsidized foreign sugar producers, particularly without addressing the subsidies in those countries.

Sugar is the most distorted commodity market in the world. The government in every country that produces sugar intervenes in its sugar market in some way. The biggest producers, and subsidizers, dump their surplus on the world market for whatever price it will bring. As a result of this pervasive dumping, so-called world market prices for sugar have averaged barely half the world average cost of production over the past two decades (Figure 8).

No producer could survive at prices so low. But government intervention ensures that domestic wholesale prices, at which most sugar is sold, are well above world dump market levels. Globally, domestic clearing prices for sugar average 22 cents per pound -- about double the world dump market price and virtually the same as the U.S. refined beet sugar support price of 22.90 cents per pound (Figures 9, 10).

The sugar subsidy problem is a global problem. It must be addressed globally in the WTO -- comprehensive, multilateral, sector-specific negotiations -- all countries, all programs. The industry has supported the WTO approach since the onset of the Uruguay Round in 1986.

Piecemeal market access concessions in bilateral and regional free trade agreements will *not* help solve the global sugar subsidy problem. Such concessions could, however, put the U.S. sugar industry out of business while foreign subsidies continue unchecked.

There is ample precedent for sugar-free FTAs. Sugar market access mandates have been excluded from virtually every FTA concluded around the world that has involved major sugar producers or consumers. The U.S.-Australia FTA is the most recent example. There are many others: the U.S.-Canada FTA; the EU's FTAs with South Africa and with Mexico; the Mercosur agreement among major producers Brazil, Argentina, Paraguay, and Uruguay; Mexico's FTAs with other Latin American countries.

### **U.S. Sugar Policy: Success for Taxpayers**

American sugar farmers are proud of the fact that sugar is the only major U.S. commodity program run at no cost to taxpayers. We derive all our returns from the marketplace. We receive no income supports from the government to cushion the blow when market prices drop. We have not had an increase in our support price in 20 years, though inflation since 1985 has been 90%.

*In many years U.S. sugar policy has been a revenue raiser. During the 16-year period of fiscal years 1991 to 2006, government outlays for all other commodity programs are*

estimated to be \$236 billion. In contrast, sugar net *revenues* – sugar producers' payments to the U.S. Treasury – are estimated to be \$110 million (*Figure 11*).

### **U.S. Sugar Policy: Success for Consumers**

American consumers get a great deal on sugar. Consumer prices are low and affordable by world standards, and extremely stable. Foreign developed-country consumers, on average, pay 30% more for their sugar than American consumers do. And, remarkably, U.S. retail sugar prices are essentially unchanged since the early 1990's. In terms of minutes of work to purchase a pound, sugar in the U.S. is about the most affordable in the world (*Figures 12, 13*).

American consumers' savings on sugar could be even greater, but history has shown that consumers do *not* benefit when producer prices for sugar fall: Grocers and food manufacturers routinely absorb their savings as higher profits rather than passing the lower sugar prices along to consumers.

- Grocers have increased profits at the expense of sugar producers and consumers as the gap between wholesale and retail prices has more than doubled over the past two decades (*Figure 14*).
- Food manufacturers have enjoyed retail price increases for sweetened products at least in line with inflation, while paying producers lower prices for the sugar the manufacturers buy (*Figures 15, 16*).

### **Conclusion**

U.S. sugar policy is working for American taxpayers and consumers. It is giving American sugar growers a chance to survive in a highly subsidized and distorted world market.

The greatest threat to continued no-cost operation of this successful policy is the hoard of FTAs with sugar-exporting countries that could carve up our market to subsidized foreign producers, without addressing any of the foreign subsidies that so badly distort the world market. These foreign distortions must be addressed, but that can only occur in the multilateral context of the WTO.

We urge that the highly successful no-cost U.S. sugar policy be retained in the next Farm Bill.

Figure 1

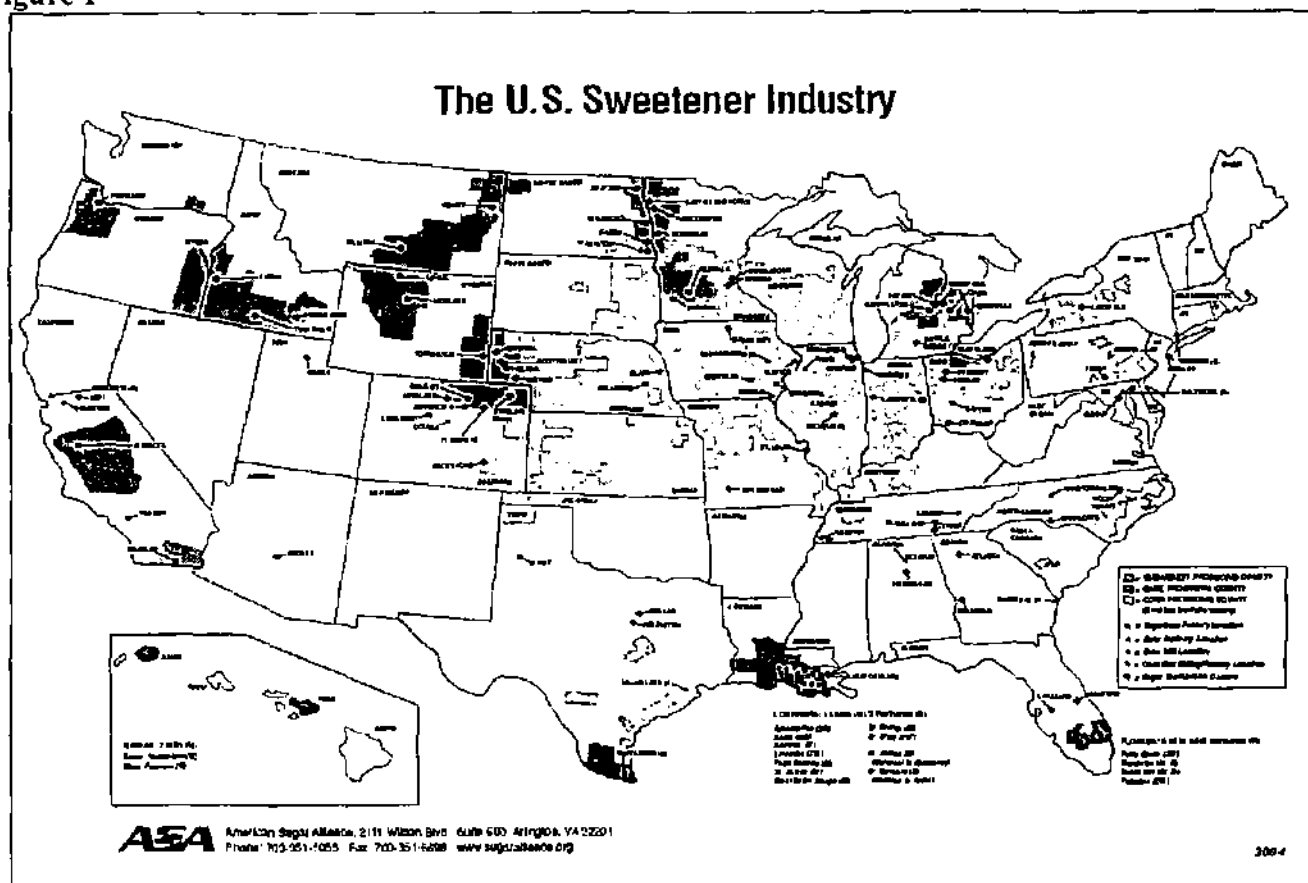


Figure 2

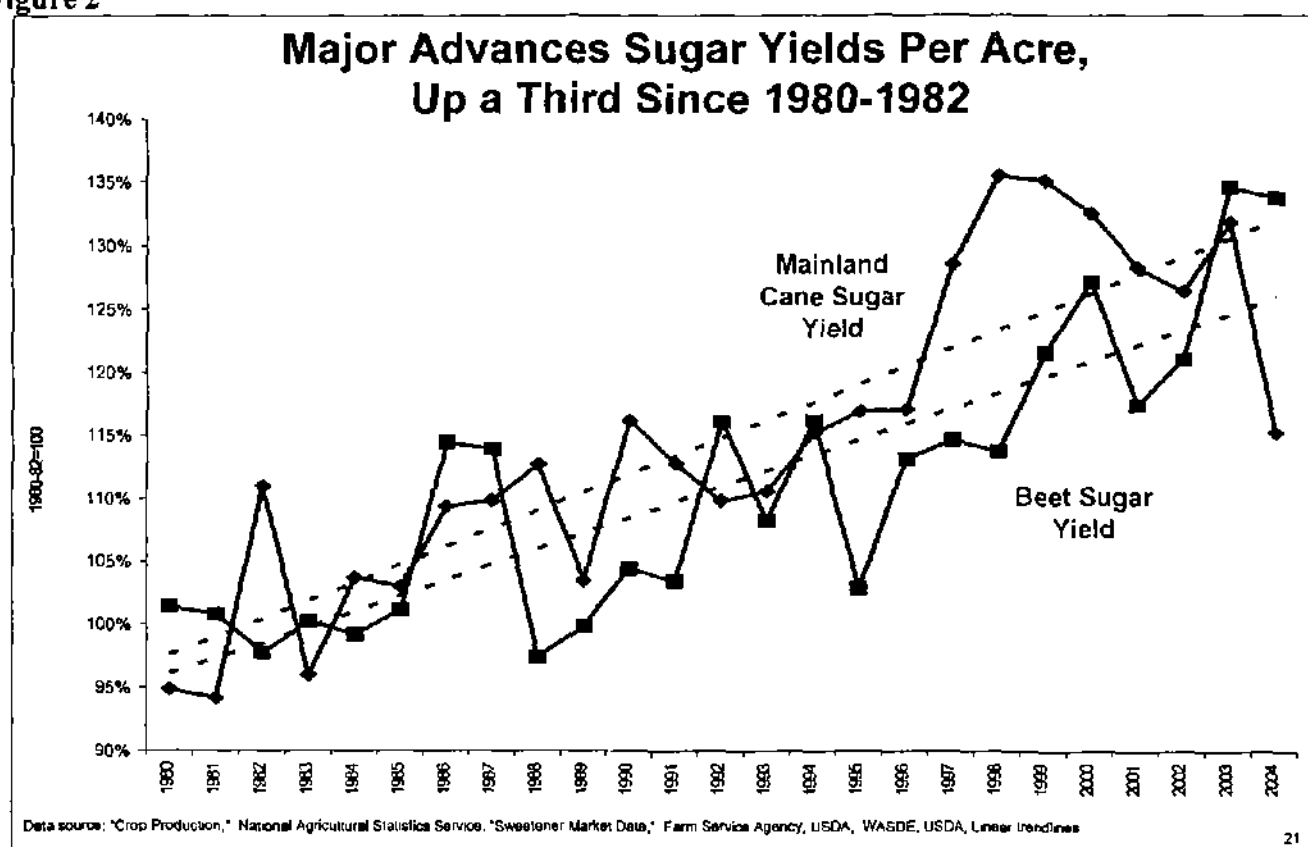




Figure 3

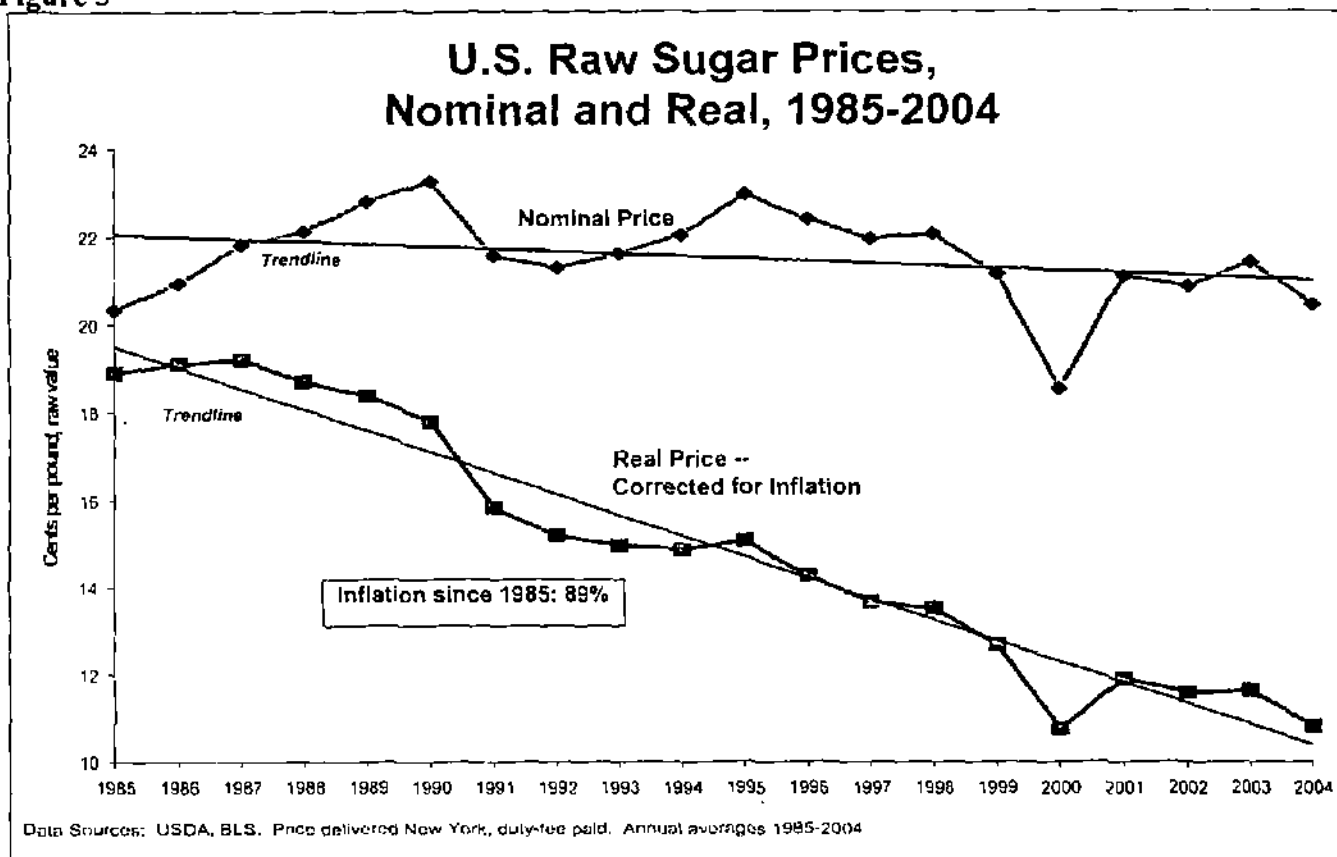


Figure 4

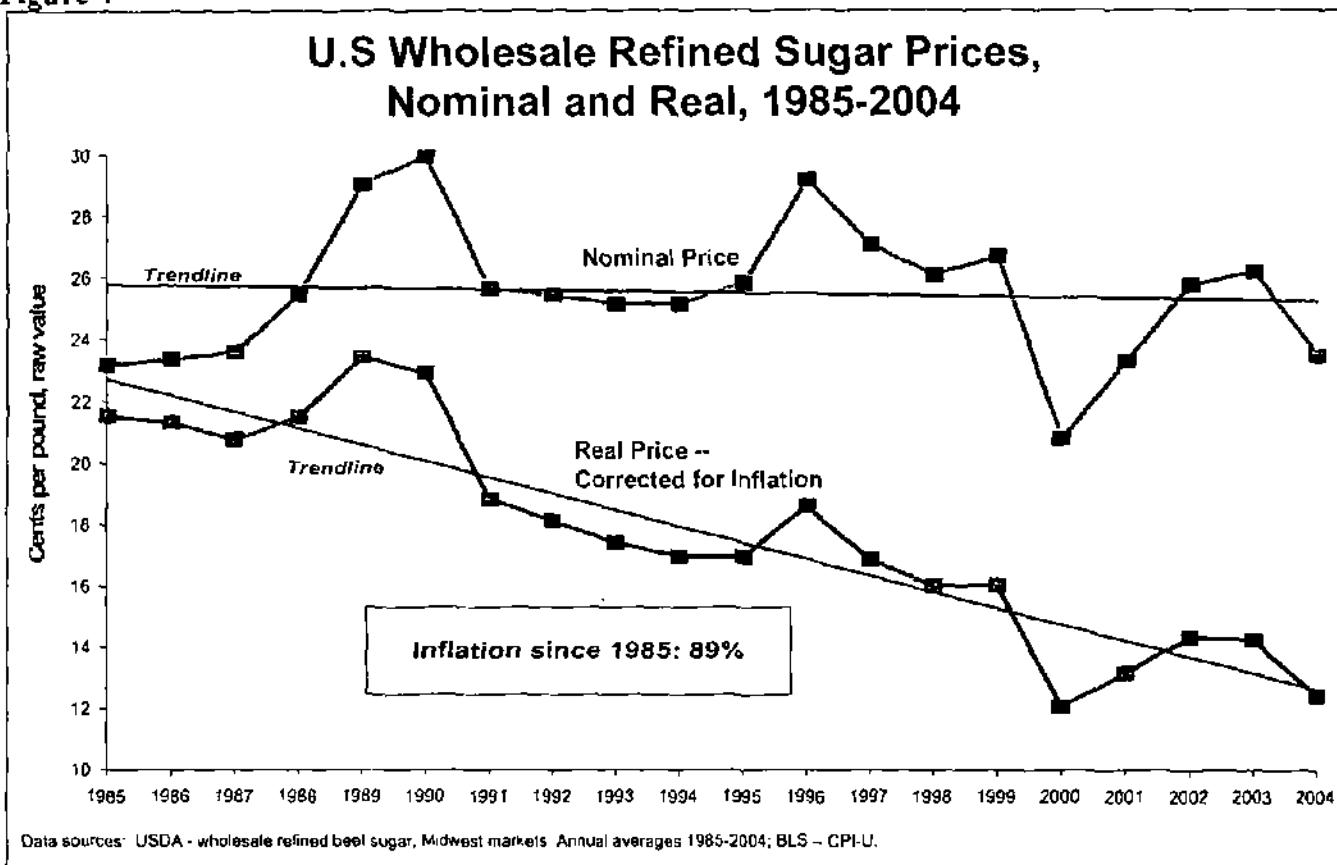


Figure 5

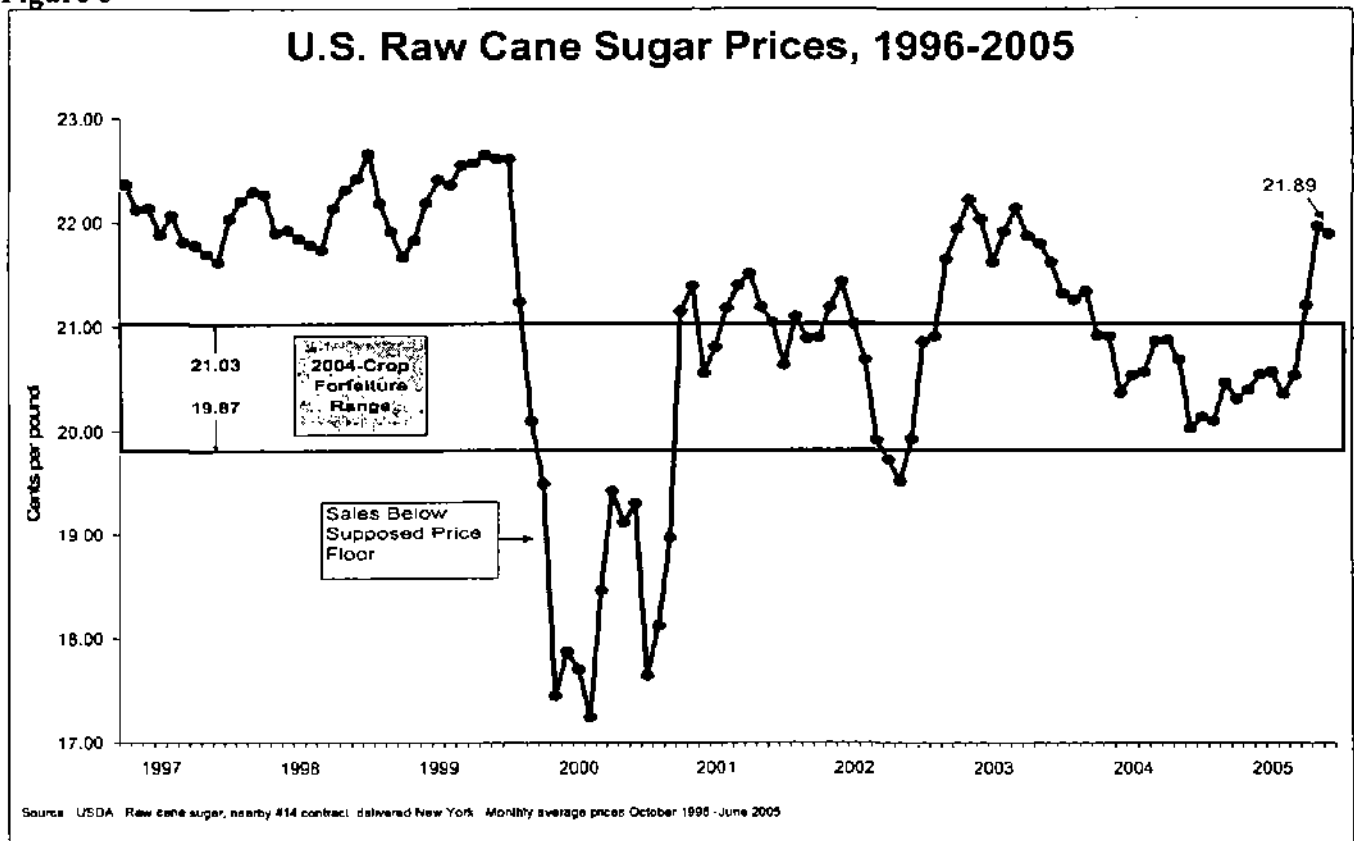


Figure 6

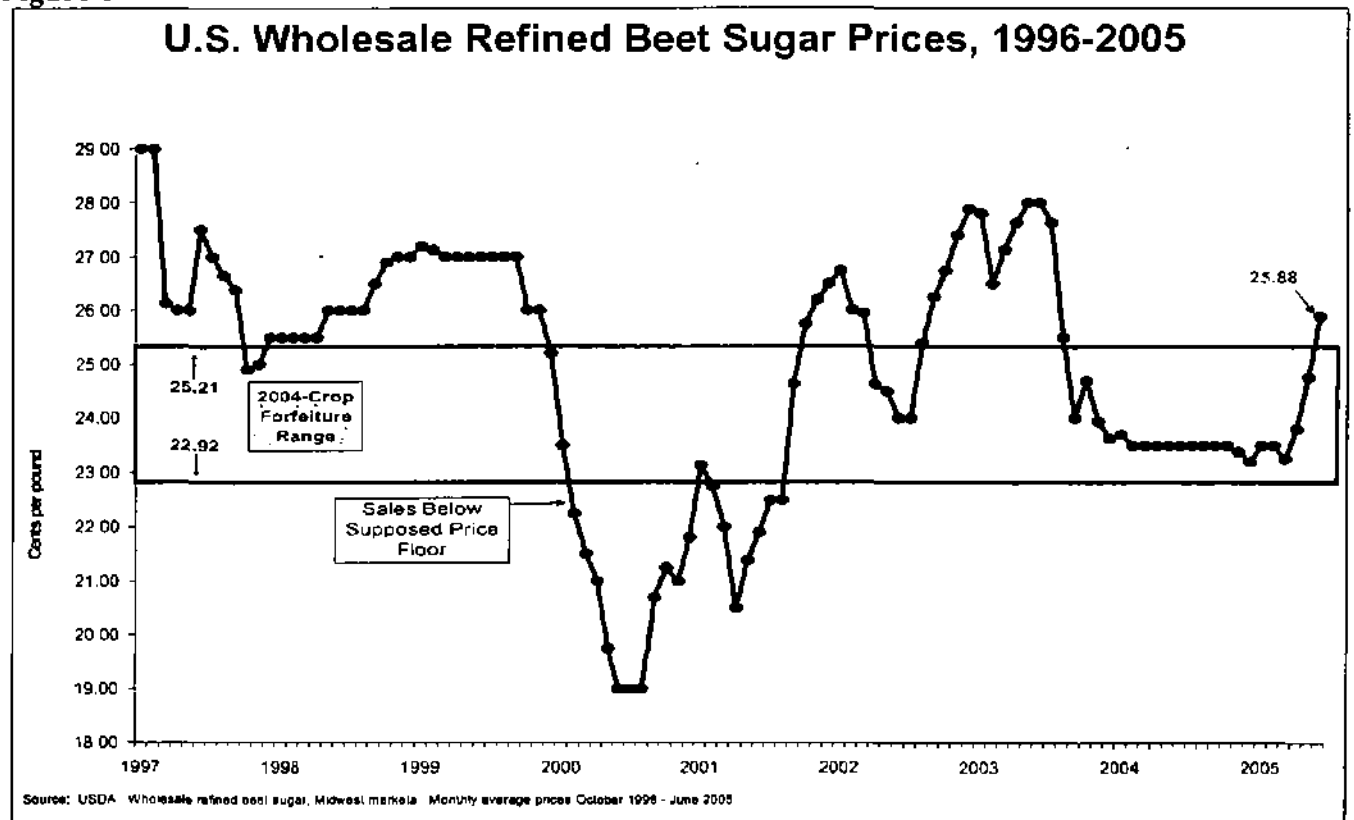


Figure 7

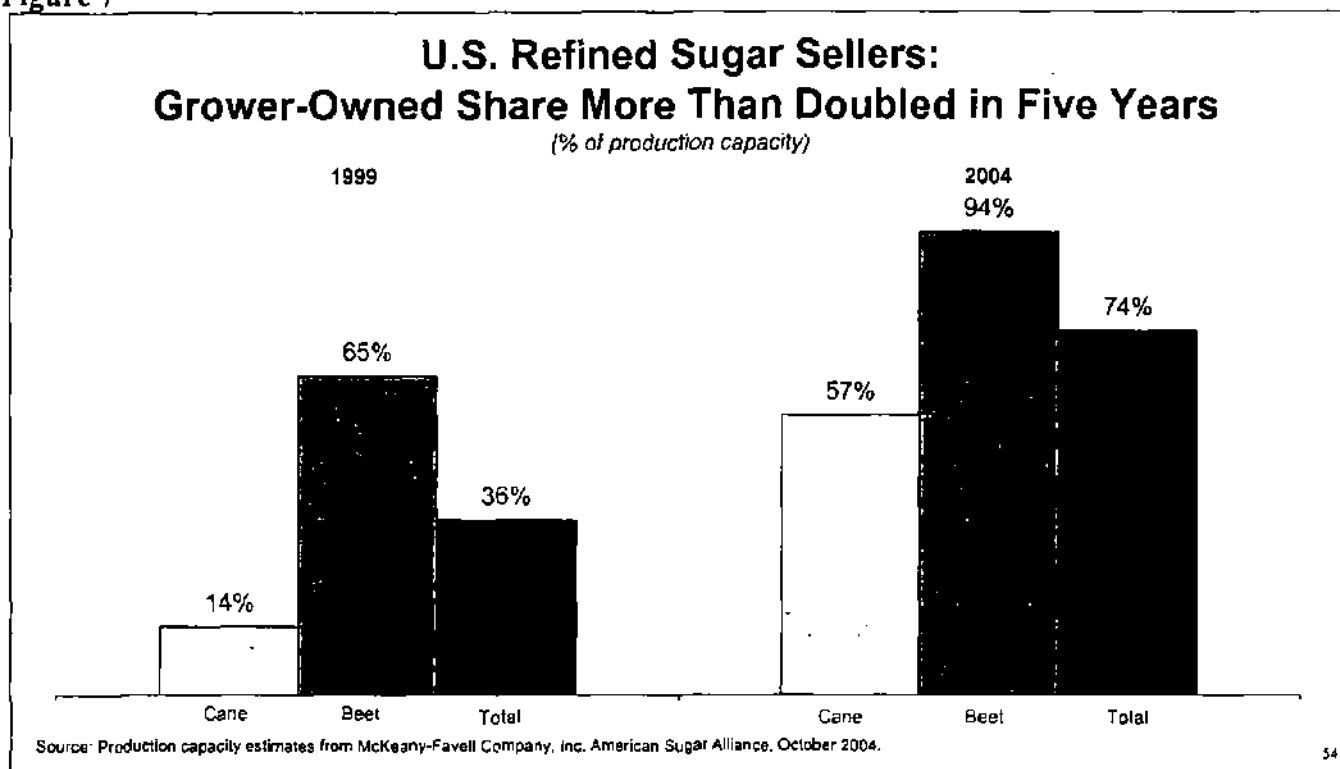
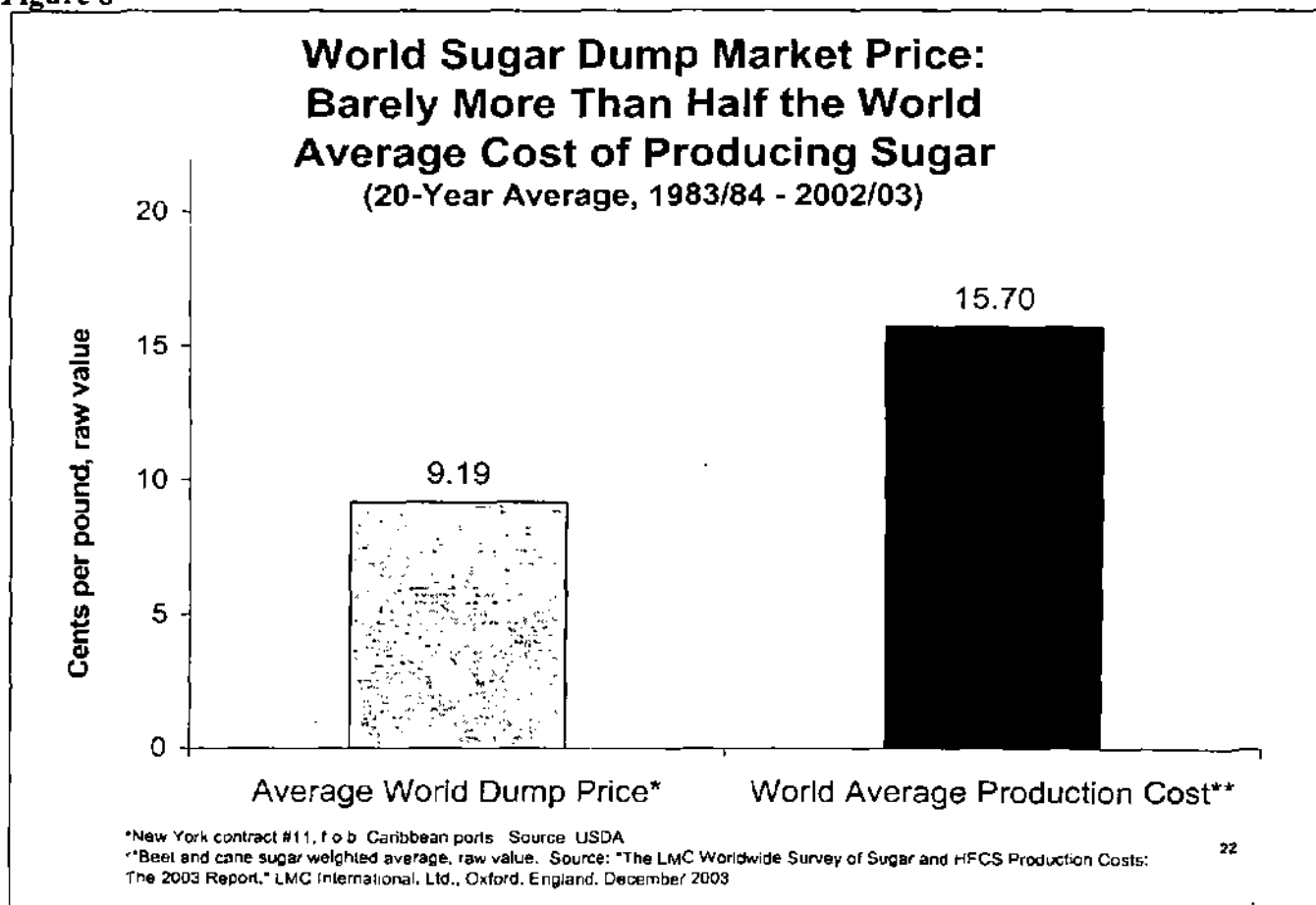
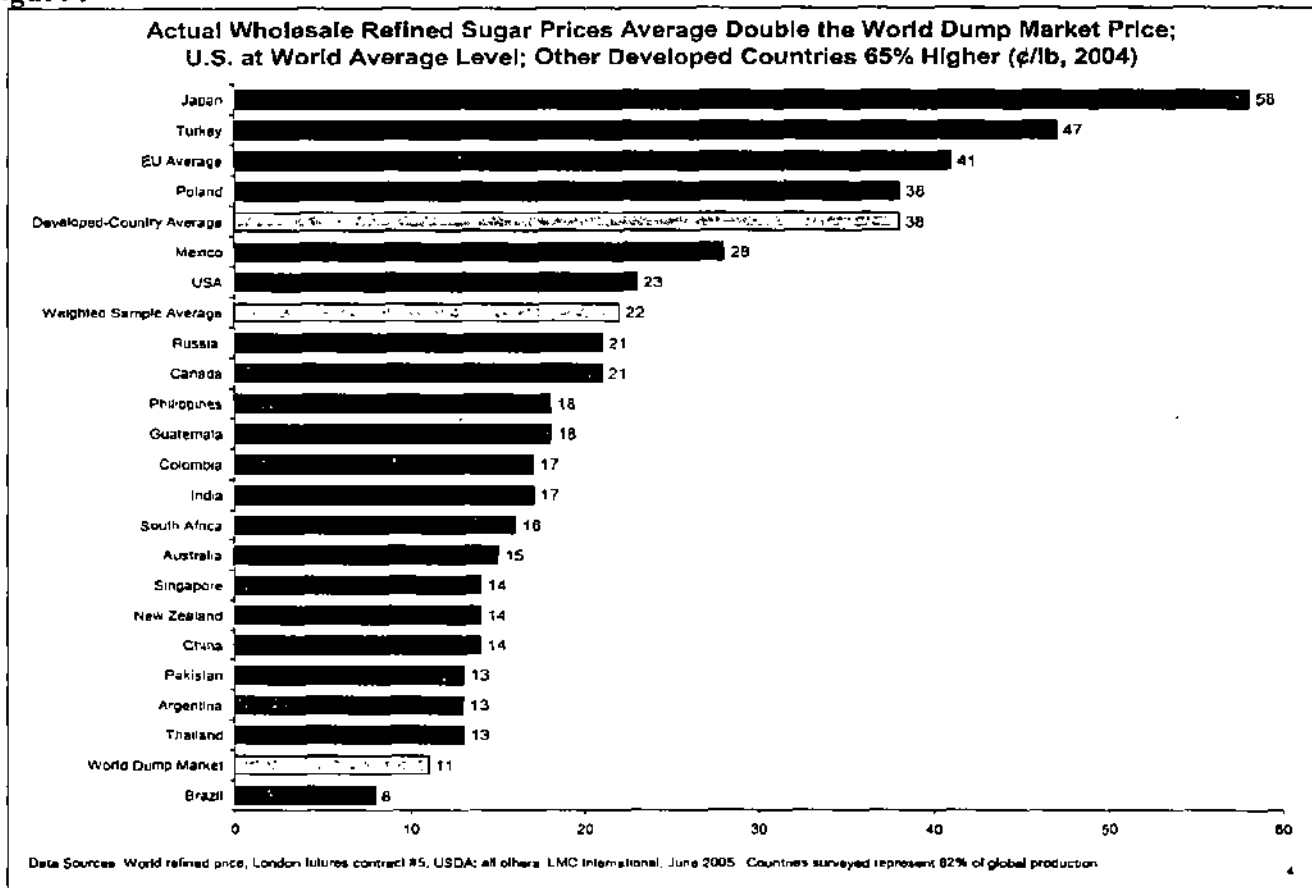


Figure 8



**Figure 9**



**Figure 10**

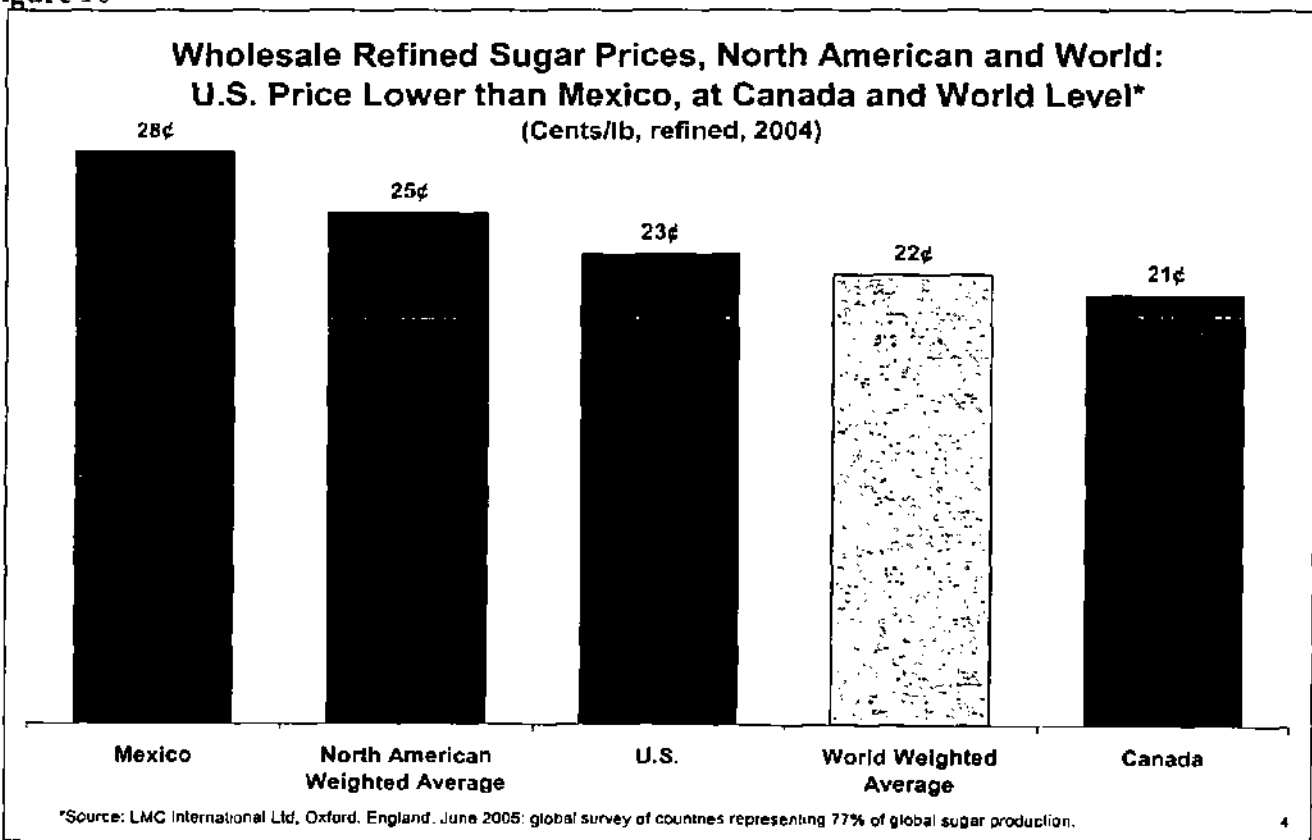


Figure 11

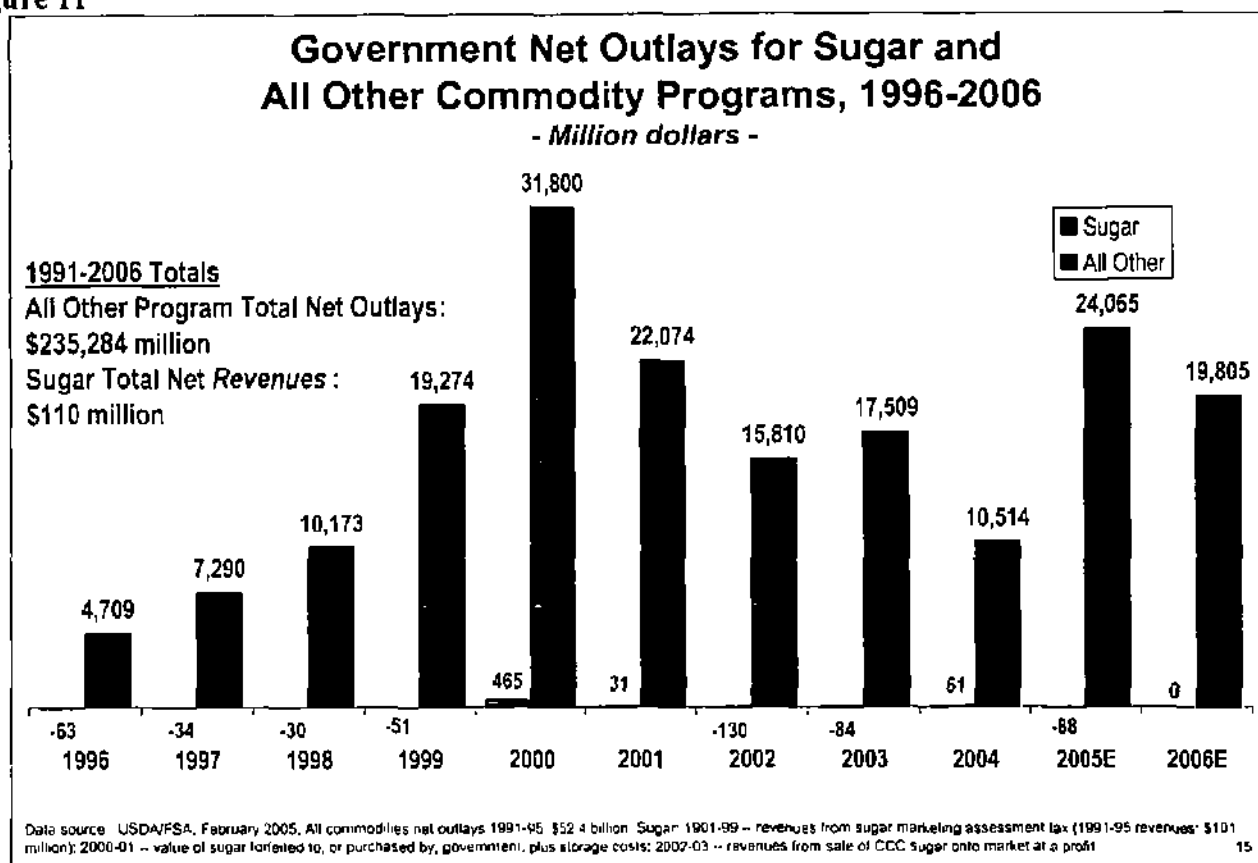


Figure 12

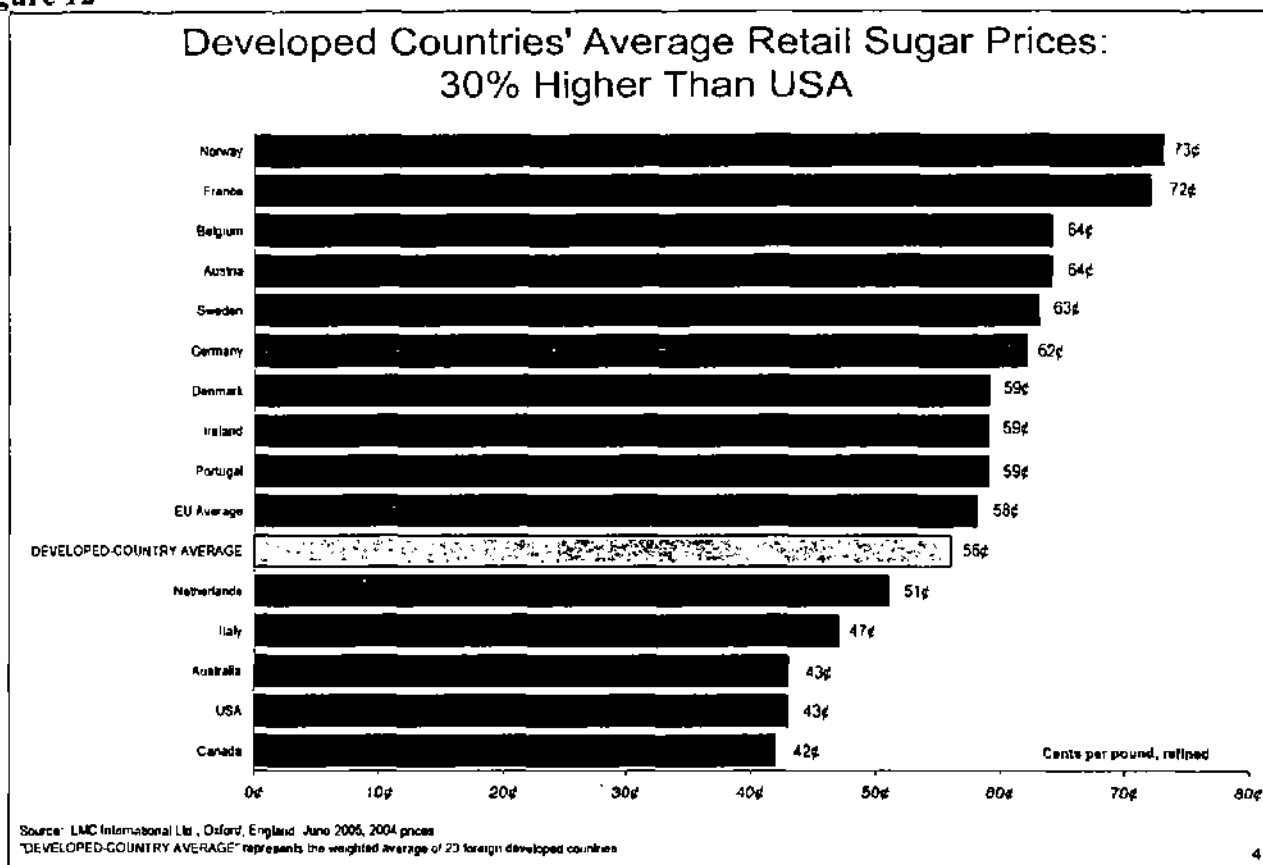


Figure 13

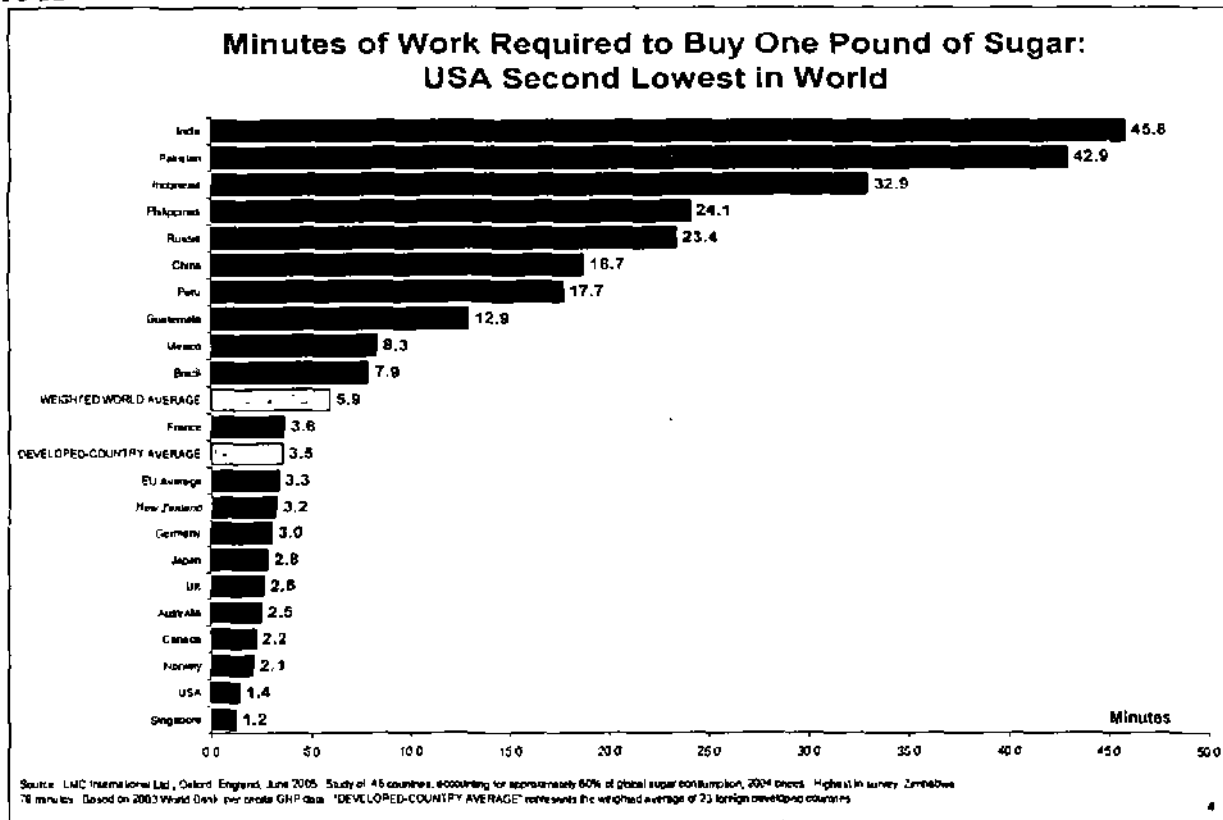


Figure 14

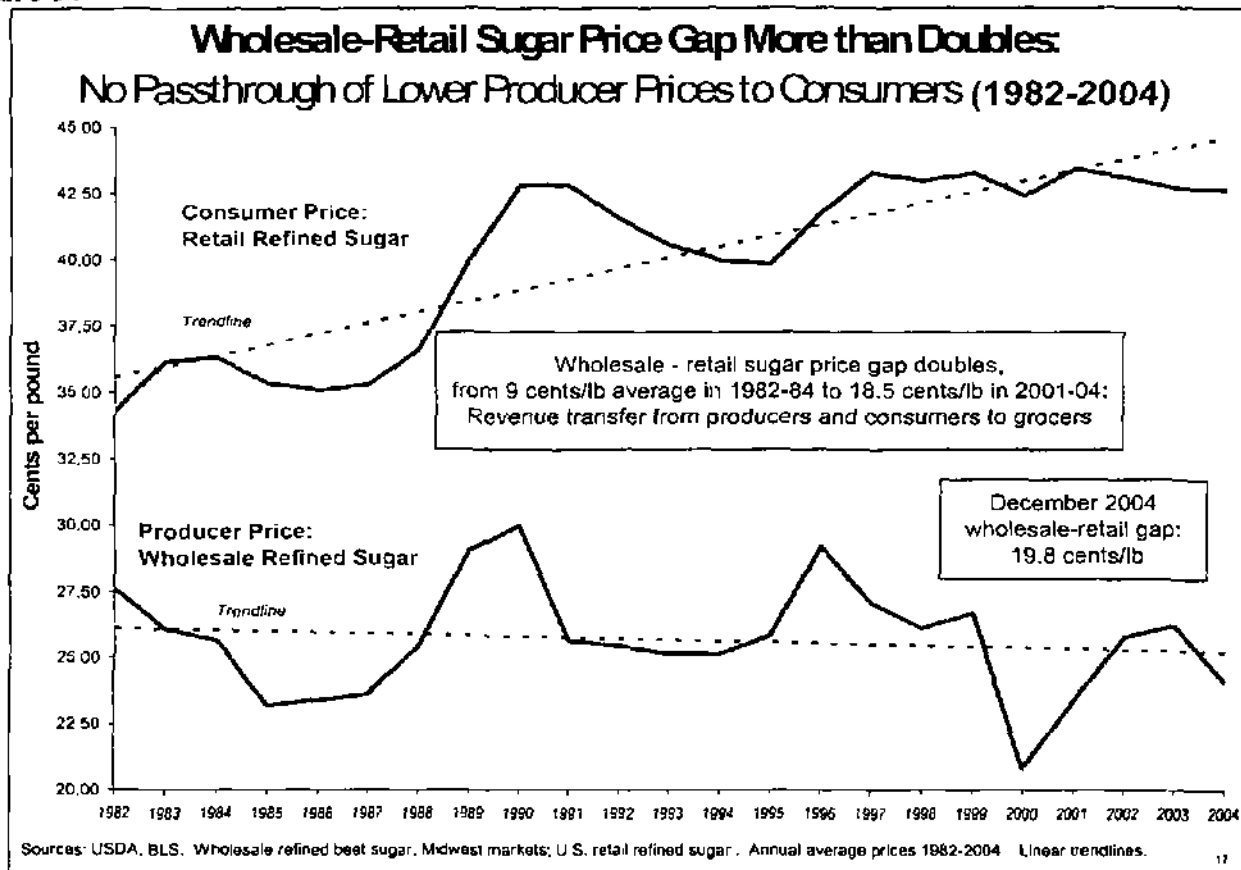


Figure 15

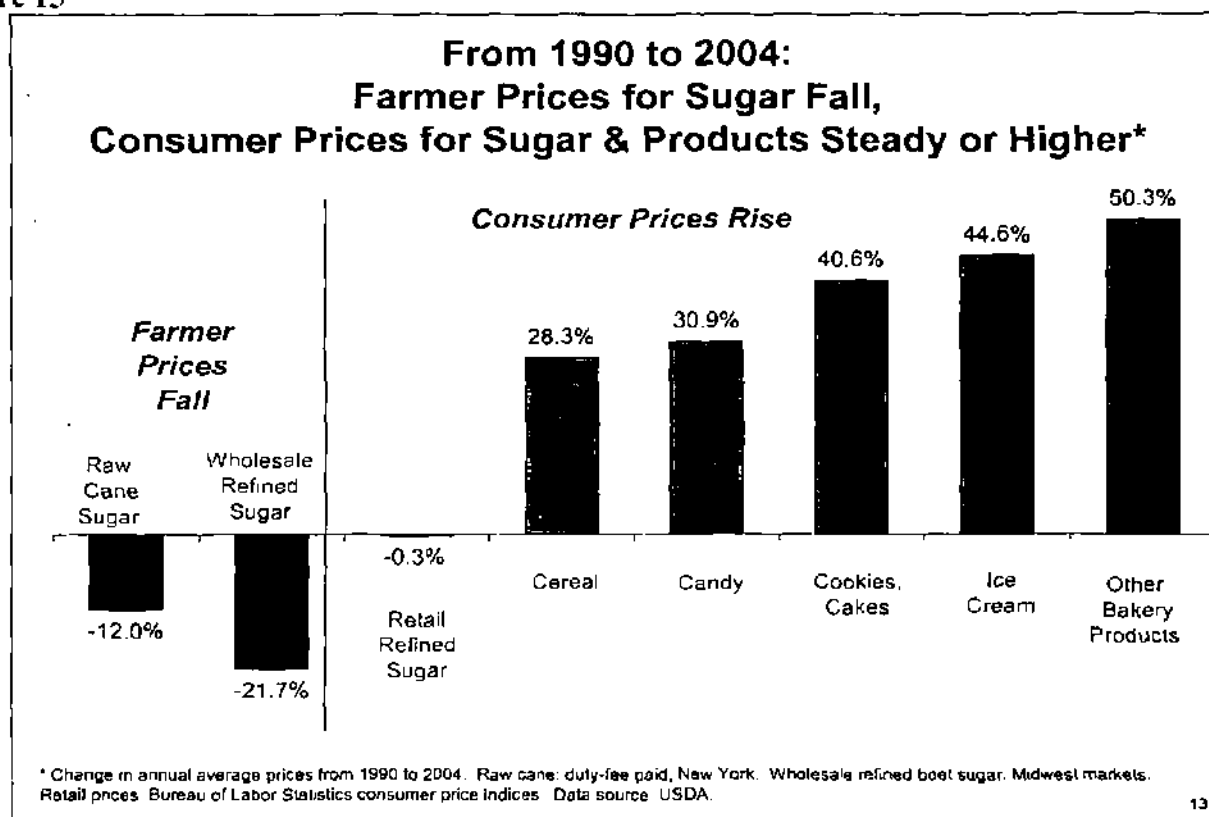


Figure 16

